

Second-Party Opinion

Red Eléctrica Group Green Finance Framework



Alignment with the Green Bond Principles 2021 and the Green Loan Principles 2021

Sustainalytics is of the opinion that the Red Eléctrica Group Green Finance Framework is credible and impactful and aligns with the four core components of the Green Bond Principles 2021 and the Green Loan Principles 2021. This assessment is based on the following:



USE OF PROCEEDS The eligible category for the use of proceeds, Electricity Network, is aligned with those recognized by the Green Bond Principles and the Green Loan Principles. Sustainalytics considers that financing of assets in the eligible categories will lead to positive environmental impacts and advance the UN Sustainable Development Goals, specifically goals 7, 9, and 11.



PROJECT EVALUATION / SELECTION Red Eléctrica has defined a two-stage project selection process, with final approval from its Sustainability Steering Committee, which includes representatives from Corporate Finance, Sustainability, Energy Networks, System Operation, and Management Control. The Committee will meet on at least a quarterly basis. Sustainalytics considers the project selection process in line with market practice.



MANAGEMENT OF PROCEEDS Red Eléctrica will manage the proceeds of green transactions in a portfolio approach, aiming to ensure that, over time, the green portfolio matches or exceeds the balance of outstanding instruments. Unallocated proceeds will be held in line with the Group's liquidity policy. This is in line with market practice.



REPORTING Red Eléctrica intends to report on the allocation of proceeds at the category level on an annual basis, including the total amount allocated to the green portfolio, the amount and/or percentage of new and existing projects and the geographical distribution of the assets. In addition, impact reporting including relevant quantitative indicators, case studies, or reports will be provided where feasible. This is in line with market practice.

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Alignment with the EU Taxonomy

Sustainalytics has assessed Red Eléctrica's Green Finance Framework for alignment with the EU Taxonomy, and is of the opinion that the Framework's eligibility criteria, which map to one EU activity, align with the applicable Technical Screening Criteria ("TSC") and with the Do No Significant Harm Criteria in the EU Taxonomy. Sustainalytics is also of the opinion that the activities and assets to be financed under the Framework will be carried out in alignment with the EU Taxonomy's Minimum Safeguards.

Introduction

Red Eléctrica de España SAU (“REE” or the “Company”) is the owner and transmission system operator of the electrical grid in Spain. REE is owned by Red Eléctrica Corporación, S.A. (“Red Eléctrica” or the “Group”). Founded in 1985, REE operates approximately 44,500 km of transmission lines and in 2020 managed over 236 TWh of energy.

Red Eléctrica has developed the Red Eléctrica Group Green Finance Framework (the “Framework”) under which any entity within the Group can issue debt instruments such as green bonds, green loans, and private placements (collectively referred to as “Green Finance Instruments”). The proceeds of such instruments will be solely dedicated to finance and/or refinance, in whole or in part, existing and/or future assets, including through related partnerships and joint ventures,¹ that support the connection and integration of renewable energy in the grid network and improve the efficiency of the rail system (as part of the grid network). The Framework defines eligibility criteria in one area:

1. Electricity Network

Red Eléctrica engaged Sustainalytics to review the Red Eléctrica Group Green Finance Framework, dated September 2021, and provide a Second-Party Opinion on the Framework’s environmental credentials and its alignment with the Green Bond Principles 2021 (GBP)², the Green Loan Principles 2021 (GLP)³ and the relevant criteria in the EU Taxonomy.⁴ This Framework has been published in a separate document.⁵ Red Eléctrica’s 2021 Framework updates and replaces its 2019 Green Finance Framework, for which Sustainalytics provided a previous Second-Party Opinion.⁶

Scope of work and limitations of Sustainalytics’ Second-Party Opinion

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent⁷ opinion on the alignment of the reviewed Framework with the current market standards and the extent to which the eligible project categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework’s alignment with the Green Bond Principles 2021, as administered by ICMA, and the Green Loan Principles 2021, as administered by LMA, APLMA and LSTA⁸;
- The Framework’s alignment with the EU Taxonomy;
- The credibility and anticipated positive impacts of the use of proceeds; and
- The alignment of the issuer’s sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.9, which is informed by market practice and Sustainalytics’ expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with various members of Red Eléctrica’s Treasury and Sustainability team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of the Framework. Red Eléctrica representatives have confirmed (1) they understand it is the sole responsibility of Red Eléctrica to ensure that the information provided is complete, accurate or up to date; (2) that they have provided Sustainalytics with all relevant information and (3) that

¹ REE has confirmed that it will account for full asset values when the assets are fully owned by the issuer and on the issuer’s balance-sheet. For joint ventures, REE will only account for the portion of the book-value of the asset that is attributable to REE.

² The Green Bond Principles are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>.

³ The Green Loan Principles are administered by the Loan Market Association, Asia Pacific Loan Market Association and Loan Syndications & Trading Association and are available at <https://www.lsta.org/content/green-loan-principles/>.

⁴ Sustainalytics has assessed Red Eléctrica’s Framework against the taxonomy criteria of the EU Taxonomy Delegated Act, available at: https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-taxonomy-sustainable-activities_en

⁵ The Red Eléctrica Group Green Finance Framework is available on Red Eléctrica Group’s website at: <https://www.ree.es/en/shareholders-and-investors/bonds/green-framework>

⁶ Sustainalytics’ 2019 Second-Party Opinion is available at: <https://www.sustainalytics.com/corporate-solutions/sustainable-finance-and-lending/published-projects/project/red-el-ctrica-de-espa-a-s-a/red-el-ctrica-green-finance-framework-second-party-opinion/red-electrica-green-finance-framework-second-party-opinion-pdf>

⁷ When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.

⁸ In addition to the Loan Markets Association, the GLP are also administered by the Asia Pacific Loan Market Association and the Loan Syndications & Trading Association

any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics' opinion of the Framework and should be read in conjunction with that Framework.

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and Red Eléctrica.

Sustainalytics' Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond and loan proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner.

In addition, the Second-Party Opinion opines on the potential allocation of proceeds but does not guarantee the realised allocation of the bond and loan proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument, either in favour or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that Red Eléctrica has made available to Sustainalytics for the purpose of this Second-Party Opinion.

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the Red Eléctrica Group Green Finance Framework

Sustainalytics has assessed the Red Eléctrica Group Green Finance Framework for its alignment with the GBP, GLP, and the EU Taxonomy.

Alignment with the Green Bond Principles 2021 and Green Loan Principles 2021

Sustainalytics is of the opinion that the Red Eléctrica Group Green Finance Framework is credible and impactful and aligns with the four core components of the GBP and GLP. Sustainalytics highlights the following elements of Red Eléctrica's Green Finance Framework:

- Use of Proceeds:
 - The use of proceeds category, Electricity Network, is aligned with those recognized as impactful by the GBP and GLP, namely Renewable Energy and Clean Transportation.
 - The net proceeds of Green Finance Instruments will be used exclusively to finance and/or refinance eligible assets, including through related partnerships and joint ventures. REE has confirmed that it will account for full asset values when the assets are fully owned by the issuer and on the issuer's balance-sheet. For joint ventures, REE will only account for the portion of the book-value of the asset that is attributable to REE. This is in line with market practice.
 - Through the Electricity Network category, Red Eléctrica finances transmission infrastructure or equipment that is owned and operated by REE. Sustainalytics views these activities to be in line with market practice, noting the following criteria and considerations:
 - To be eligible under the Framework, network assets are required to be part of a grid on which more than 67% of newly enabled generation capacity in the system is below the generation threshold value of 100gCO_{2e}/kWh measured on a life-cycle basis over a rolling five-year period. It is noted that this criterion is drawn from the EU Taxonomy Designated Act⁹, and that Red Eléctrica's requirement goes beyond the Taxonomy's requirement by specifying a single eligibility criterion.¹⁰ Sustainalytics considers the expansion and maintenance of resilient electricity grids broadly to be supportive of positive environmental outcomes by enabling increases in the use of renewable energy and further electrification of energy systems.

⁹ European Commission, "EU Taxonomy Climate Delegated Act", (2021), at: [https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=PL_COM:C\(2021\)2800](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=PL_COM:C(2021)2800)

¹⁰ The EU Taxonomy considers any grid that is part of the interconnected European system or that meets the threshold described above, alone, as sufficient for an asset or activity to comply with the Taxonomy.

Sustainalytics also notes that it has been common practice in the green bond market to finance transmission and distribution assets that are employed predominantly to transmit or enable the use of renewable energy.¹¹ Red Eléctrica takes a holistic approach to asset selection that is stricter than the EU Taxonomy requirements by only considering eligible grids that are on a transition trajectory.

- Sustainalytics notes that Red Eléctrica has excluded any infrastructure dedicated to creating or expanding connections to power production plants that have life-cycle emissions of more than 100gCO₂e/kWh. This is in line with market practice.
 - The Framework specifies that eligible transmission infrastructure includes the following asset types: 1) transmission assets, e.g. the grid network, which includes assets aimed at directly supporting the connection of renewable energy generation capacity to the grid, such as specific transmission lines or interconnections, and 2) transmission assets (within the network) aimed at improving the efficiency of the rail system, including the provision of electrical connections for high-speed rail lines. Sustainalytics views these activities to be in line with market practice and notes that projects that support rail electrification have the potential to directly reduce the environmental impact of rail transport as well as to promote the growth of rail transport and encourage modal shift.
- Project Evaluation and Selection:
 - Red Eléctrica has defined an internal team, consisting of representatives from relevant areas such as the sustainability department, control and analysis of investments department, and finance direction, that will select potentially eligible projects. This list is then submitted to the Company's Sustainability Steering Committee ("the Committee"), including representatives from Corporate Finance, Sustainability, Energy Networks, System Operation, and Management Control, for final approval. The Steering Committee will be informed on the composition of the Eligible Asset Portfolio by Treasury and relevant business units.
 - The Committee will also be responsible for ensuring that the eligibility criteria continue to comply with the relevant principles, market standards and applicable regulation, as well as monitoring the green portfolio to exclude assets which no longer comply or have been disposed of, and to replace them, on a best effort basis.
 - Based on the two-step approval process, the commitment to ongoing monitoring, and the intention to provide investors with annual information on asset values (based on IFRS), reflecting depreciation and investments on the assets, Sustainalytics considers this to be in line with market practice.
 - Management of Proceeds:
 - Red Eléctrica will manage the proceeds of its Green Finance Instruments on a portfolio basis and will strive to maintain a balance (over time) in its green portfolio which matches or exceeds the net proceeds of outstanding instruments. The Company's Treasury team, which is a part of the Committee, is responsible for managing the proceeds from the Green Finance Instruments.
 - Pending full allocation, proceeds may be held within the Company's liquidity portfolio, in cash, cash equivalents, money markets funds, or similar investments. The Company intends to fully allocate within 24-36 months from the moment of issuance of any instrument(s).
 - Based on the commitment to maintaining a green portfolio, and the disclosure of temporary instruments for the proceeds, Sustainalytics considers this to be in line with market practice.
 - Reporting:
 - Red Eléctrica will provide allocation and impact reporting at the category level, annually until full allocation of its Green Finance Instruments, on its website. Allocation reporting will include amounts allocated, mapping of the EU Environmental Objectives pursued by the assets in the green portfolio, share of finance versus refinancing, the balance of unallocated proceeds, and the geographical distribution of the assets at the country level. Impact reporting may include relevant quantitative performance indicators, such as increase in renewable energy capacity, estimated energy savings, and estimated avoided emissions, as well as transformer capacity assigned to train connections. In addition, Red Eléctrica intends to align with, on a best effort, the reporting approach in the Harmonized Framework for Impact Reporting.¹²

¹¹ The mainland portion of REE's electrical grid transmitted over 45% renewable energy in 2020. See more, at: https://www.ree.es/sites/default/files/publication/2021/05/downloadable/Sustainability_Report_2020_0.pdf

¹² ICMA, The Green Bond Principles, "Harmonized Framework for Impact Reporting (December 2020)", at:

<https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/Handbook-Harmonized-Framework-for-Impact-Reporting-December-2020-151220.pdf>

- Based on the commitment to annual reporting, and the intention to disclose impact reporting where feasible, Sustainalytics considers this to be in line with market practice, and views positively that Red Eléctrica has stated its intention to receive annual limited assurance from an independent auditor until proceeds are fully allocated or until maturity of the instruments.

Alignment with Green Bond Principles 2021 and Green Loan Principles 2021

Sustainalytics has determined that the Red Eléctrica Group Green Finance Framework aligns to the four core components of the GBP and GLP. For detailed information please refer to Appendix 3: Green Bond/Green Bond Programme External Review Form.

Alignment with the EU Taxonomy

Sustainalytics has assessed the Framework's use of proceeds criteria against the relevant criteria in the EU Taxonomy and determined their alignment with each of the Taxonomy's three sets of requirements. The results of this assessment are as follows:

1. Technical Screening Criteria ("TSC")
 - The one eligible category in the Framework, which maps to the Transmission and Distribution of Electricity activity in the EU Taxonomy, was assessed and is aligned with the applicable TSC of the EU Taxonomy.
2. Do No Significant Harm ("DNSH") Criteria
 - The Framework's eligible green category is aligned with the applicable DNSH criteria.
 - The activity assessed has a total of four individual DNSH criteria (across all environmental objectives) applicable to it, and all four are aligned with the criteria in the EU Taxonomy.
3. Minimum Safeguards
 - Based on the consideration of the policies and management systems applicable to the Framework criteria, as well as the regulatory context in which financing will occur, Sustainalytics is of the view the EU Taxonomy's Minimum Safeguards requirements will be met.
 - For Sustainalytics' assessment of alignment with the Minimum Safeguards see Section 2 below.

Table 1 provides an overview of the alignment of Red Eléctrica's Framework with the Technical Screening Criteria (TSC) and the Do No Significant Harm (DNSH) criteria for the corresponding NACE activities in the EU Taxonomy.

Table 1: Summary of Alignment of Framework Criteria with the EU Taxonomy

Framework Criterion	Alignment with Taxonomy Criteria		Alignment per EU Environmental Objective					
	TSC	DNSH	Mitigation	Adaptation	Water	Circular Economy	Pollution	Eco-systems
Transmission and distribution of electricity	■	■	■	■	-	■	■	■

Legend	
Aligned	■
Partially aligned	□
Not aligned	⊠
No applicable DNSH criteria for this Objective and/or Activity	-
Grey shading indicates the primary EU Environmental Objective	

* The EU Taxonomy has not yet defined TSC for EU Environmental Objectives other than Climate Mitigation and Climate Adaptation. In cases where an activity of the Framework has the intent of advancing a different Objective, Sustainalytics has assessed alignment against the DNSH criteria for all six Objectives.

Section 2: Sustainability Performance of Red Eléctrica

Contribution of framework to Red Eléctrica Group's sustainability strategy

The Company's sustainability approach is underpinned by four sustainability priorities: (i) decarbonisation of the economy, (ii) anticipating change and taking action, (iii) contribution to the development of society, and (iv) responsible value chain.¹³ The Company has established a "Commitment to Sustainability"¹⁴ framework which outlines eleven objectives to be achieved by 2030, including quantitative environmental and social targets and actions that the Company will take to advance each of these priorities. This includes reducing its GHG emissions by more than 40% per MWh transported compared to 2015, empowering 100% of society to be actively involved in the energy transition process, and safely integrating 100% of the available renewable energy into its electrical system in order to minimize the curtailment of renewable energy generation and accelerate progress towards meeting energy transition targets.¹⁵ REE's emissions reduction targets were approved by the Science Based Targets initiative (SBTi) in 2018. As part of its annual sustainability reporting, the Company monitors, and reports progress on achieving the objectives of its sustainability programme. As of 2020, 100% of the targets set have been met and the Company has been working on setting more ambitious targets in line with the United Nations Business Ambition for 1.5° C initiative,¹⁶ these goals will be published in 2021.¹⁷

The use of proceeds categories outlined in the Framework are aligned with this overall sustainability strategy and performance. Notably, by supporting the interconnection and integration of renewables, the Company is advancing the decarbonisation of the economy, as well as helping prepare its business for changes in future energy systems. Additionally, the investments in clean transportation will support emissions savings and decarbonisation beyond the energy sector, while also having impacts across the Company's value chain.

In addition to the above, the Company's commitment to sustainability has been recognized with certifications, listings, and awards from various reputable third parties, which Sustainalytics considers as indicative of the Company's commitment to the above-described targets. These include inclusion on the CDP's "Climate A List", a "Good Practice of the Year" award from the Renewables Grid Initiative and receiving the top gender equality ranking for a Spanish company from EQUILEAP.¹⁸

Considering the above, Sustainalytics is of the opinion that the Red Eléctrica Group Green Finance Framework will further the Company's action on its key environmental priorities and allow REE to contribute positively to Spain's decarbonization efforts.

Well-positioned to address common environmental and social risks associated with the projects

Sustainalytics recognizes that the projects and assets financed by the Green Finance Instruments will provide environmental benefits overall. However, as with all large-scale projects, assets, and investments in electrical transmission in support of renewable energy and clean transportation may be associated with environmental and social risks. These may include biodiversity impacts from large infrastructure such as transmission lines, worker health and safety and construction projects, supply chain impacts from materials sourcing, adverse impacts on vulnerable communities in areas in which work is undertaken, and the risk that investments in the transmission grid may indirectly support fossil fuel energy.

Red Eléctrica has numerous internal policies, procedures, and commitments in place that will help mitigate the direct social and environmental risks potentially associated with green projects. These include an Environmental policy,¹⁹ a Comprehensive Risk Management policy,²⁰ a Transmission Policy,²¹ a Code of Ethics,²² a Supplier Code of Conduct,²³

¹³ REE, "Sustainability priorities", at: <https://www.ree.es/en/sustainability/commitment-to-sustainability/sustainability-priorities>

¹⁴ REE, "Sustainability Objectives 2030", at: <https://www.ree.es/en/sustainability/commitment-to-sustainability/sustainability-objectives-2030>

¹⁵ *Ibid.*

¹⁶ United Nations Global Compact, Business Ambition for 1.5° C, at: <https://www.unglobalcompact.org/take-action/events/climate-action-summit-2019/business-ambition>

¹⁷ REE, "Sustainability Report 2020", at: https://www.ree.es/sites/default/files/publication/2021/05/downloadable/Sustainability_Report_2020_0.pdf

¹⁸ REE, "Sustainability leadership", at: <https://www.ree.es/en/sustainability/commitment-to-sustainability/leadership-in-sustainability>

¹⁹ REE, "Environmental Policy", at: https://www.ree.es/sites/default/files/04_SOSTENIBILIDAD/Documentos/politica_ambiental_02102014_ing.pdf

²⁰ REE, "Comprehensive Risk Management Policy", at:

https://www.ree.es/sites/default/files/04_SOSTENIBILIDAD/Documentos/politica_gestion_integral_de_riesgos_2016_ing.pdf

²¹ REE, "Transmission Policy", at: https://www.ree.es/sites/default/files/04_SOSTENIBILIDAD/Documentos/politica_transporte_02102014_ing.pdf

²² REE, "Ethics Code", at: https://www.ree.es/sites/default/files/04_SOSTENIBILIDAD/Documentos/ethics_code_2013.pdf

²³ REE, "Supplier Code of Conduct", at: https://www.ree.es/sites/default/files/20200612_Codigo_Conducta_Proveedores_ING.pdf

a Climate Change Commitment,²⁴ and a Biodiversity Commitment.²⁵ Sustainalytics has reviewed and assessed these documents and considers them to be robust, and applicable to the mitigation of relevant risks associated with the construction and operation of the physical assets financed by the Green Finance Instruments. Furthermore, Red Eléctrica is a signatory to the UN Global Compact, a member of the CDP, and member of the Spanish Green Growth Company, further supporting that the aforementioned risks are being appropriately considered.²⁶ Finally, it should be noted that all of Red Eléctrica's investments under the Framework will be carried out in Spain, which is considered to be a designated country by the Equator Principles indicating that robust social and environmental governance systems are in place.²⁷ In addition, Red Eléctrica prepares its emissions inventory based on the GHG Protocol methodology, which has been subject to an independent review on an annual basis.

It is acknowledged that Red Eléctrica's transmission network will transmit energy that includes electricity generated from the combustion of fossil fuels. In Sustainalytics view, this fact does not detract from the environmental benefits of the green investments, based on:

- The high percentage of renewable installed capacity in the Spanish grid (54% of installed capacity was renewable in 2020, of which approximately 46% was wind and 28,5% hydro); this represents a 44% increase from 2010.²⁸ While the share of energy generated from renewables (45.5% on the mainland, 43.97 nationally) has been somewhat stable over the past five years, it has grown considerably over a slightly longer period, as renewable energy made up only 26% of annual generation in 2009.^{29,30}
- As a network operator, Red Eléctrica is responsible for the efficient operation of its network and the consistent supply of electricity to consumers;³¹ considering its regulatory responsibilities and the current nature of the energy sector, it would not be feasible to exclude fossil fuel energy at this time.

Overall, considering the internal policies, external commitments, and contextual factors, Sustainalytics is of the opinion that Red Eléctrica is well-positioned to mitigate common environmental and social risks associated with the types of projects that will be financed by the Green Finance Instruments.

Alignment with the EU Taxonomy's Minimum Safeguards

Alignment with the EU Taxonomy's Minimum Safeguards requires that companies have in place a set of policies or adherence to regulations, as well as supporting management systems and processes, that provide assurance that the activities financed by a bond are carried out in a manner that meets OECD and other international guidelines for responsible business conduct.³² The following policies, commitments and adherence to regulations outline Red Eléctrica's approach to protecting human and labour rights, and commitment to combating bribery and corruption.

Within its Code of Ethics and Conduct (the "Code")³³ Red Eléctrica states alignment with the OECD and the International Labour Organisation's fundamental conventions. In its Code, Red Eléctrica also pledges to support the Universal Declaration of Human Rights of the United Nations and the covenants derived from it, highlighting the Company's commitment towards preserving human rights as well as the principle of equal treatment and supporting diversity. The Code also defines the Company's approach to combating bribery and corruption. Red Eléctrica's Supplier Code of Conduct describes the steps taken by the Company to prevent and combat human rights violations along its supply chain, including child labour and forced or coerced labour.³⁴ The Supplier Code of Conduct also formalizes the minimum ethical, social, and environmental requirements that all suppliers must comply with to work with the Company. These social standards promote human rights and the creation of suitable working conditions for employees and society.³⁵

As outlined in its Code, Red Eléctrica aims to help its employees understand and adhere to policies pertaining to anti-corruption and anti-trust.³⁶ The Company also applies a Procurement Policy which provide guidelines regarding the

²⁴ REE, "Climate Change Commitment", at: https://www.ree.es/sites/default/files/downloadable/climate_change_commitment_2017.pdf

²⁵ REE, "Biodiversity Commitment", at: https://www.ree.es/sites/default/files/biodiversity_commitment_ree_march2017.pdf

²⁶ REE, "Leadership in Sustainability", <https://www.ree.es/en/sustainability/commitment-to-sustainability/leadership-in-sustainability>

²⁷ Equator Principles, "Designated Countries", at: <https://equator-principles.com/designated-countries/>

²⁸ REE, "2020 Sustainability Report", at: https://www.ree.es/sites/default/files/publication/2021/05/downloadable/Sustainability_Report_2020_0.pdf

²⁹ *Ibid.*

³⁰ REE, "2009 Corporate Responsibility Report", https://www.ree.es/sites/default/files/downloadable/corporate_responsibility_report_2009_v4.pdf

³¹ REE, "Electricity business in Spain", <https://www.ree.es/en/about-us/business-activities/electricity-business-in-spain>

³² The EU Taxonomy's Minimum Safeguards require that eligible activities be carried out in alignment with major international norms and standards for responsible business conduct, including the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles on Business and Human Rights, and the International Labour Organisation's declaration on Fundamental Rights and Principles at Work.

³³ REE, Code of Conduct and Ethics, at:

https://www.ree.es/sites/default/files/03_GOBIERNO_CORPORATIVO/Documentos/CODIGO_ETICO_CONDUCTA.ENG.pdf

³⁴ Red Eléctrica, Supplier Code of Conduct, at: https://www.ree.es/sites/default/files/20200612_Codigo_Conducta_Proveedores_ING.pdf

³⁵ *Ibid.*

³⁶ *Ibid.*

procurement management of goods and services to ensure the efficient supply of goods while committing to corporate responsibility and the prevention of occupational and environmental risks.³⁷ Red Eléctrica's Code also outlines its compliance with applicable national and international sanctions, regulations and other restrictions of foreign trade legislation to avoid the financing of terrorism, money laundering or any other criminal activity.³⁸ In addition, Red Eléctrica applies a Corporate Responsibility Policy³⁹ which stipulates a requirement to act in accordance with current legislation and the voluntary commitments undertaken in the countries and territories where it operates. The Policy also encourages its employees and management to create a safe and healthy working environment characterized by equal opportunities, non-discrimination, promotion of diversity, and a commitment to comply with standards for promoting occupational health and safety.⁴⁰

Red Eléctrica is also a signatory to the 10 Principles of the UN Global Compact in the areas of human rights, labour rights, the natural environment, and the fight against corruption. According to its 2020 Sustainability Report,⁴¹ the Company has reached the 'Advanced-level' reporting status, the highest level awarded by the United Nations Global Compact.

Based on the assessment above, Sustainalytics is of the opinion that Red Eléctrica's policies, guidelines and commitments are sufficient to demonstrate that the activities and projects to be financed under the Framework will be carried out in alignment with the EU Taxonomy's Minimum Safeguards.

Section 3: Impact of Use of Proceeds

The use of proceeds category can be mapped against two main categories recognized by the GBP and GLP. Sustainalytics has focused on the impact of the categories, specifically the relevance in the local context.

Importance of resilient infrastructure for renewable electricity transmission in Europe

By 2030, the European electricity transmission system will require between EUR 375 to 425 billion in investments to upgrade and support the transition to renewables, including wind and solar.⁴² The investments would support the European Union's targets for achieving 32% renewable energy by 2030, and carbon neutrality by 2050.⁴³ While the EU's targets are intended to positively impact climate change efforts, the existing transmission infrastructure in Europe is ageing and under pressure from already existing electricity outputs. One-third of the EU's transmission and distribution infrastructure is over 40 years old and by 2030, the figure could pass 50%.⁴⁴ Therefore, to support increased renewable energy distribution, technology upgrades and modernization must occur. As stated in the EC Directive 2009/28/EC, "There is a need to support the integration of energy from renewable sources into the transmission and distribution grid and the use of energy storage systems for integrated intermittent production of energy from renewable sources."⁴⁵ These investments are required as many renewable energy sources have different geographical spreads and generation profiles than conventional fossil-fuel power plants, specifically considering that weather variability may result in intermittent output.^{46,47} The European electric grid is generally interconnected from Lisbon to Istanbul, however in January 2021, a system of cold weather revealed the fragilities in the grid as frequencies were unable to be stabilized across the continent, leaving thousands of households without electricity.⁴⁸ These events will become more frequent as countries begin to decommission coal and other ageing facilities in favour of smaller wind and solar units with limited capacity for the grid to distribute the electricity produced there.

In some regions, the mismatch between renewable electricity output capacity and the ability for the grid to distribute it are leading to curtailment.⁴⁹ Curtailment is a process in which an operator is told not to inject energy into the grid

³⁷ REE, Procurement Policy, at: https://www.ree.es/sites/default/files/04_SOSTENIBILIDAD/Documentos/politica_aprovisionamientos_02102014_ing.pdf

³⁸ REE, Supplier Code of Conduct, at: https://www.ree.es/sites/default/files/20200612_Codigo_Conducta_Proveedores_ING.pdf

³⁹ REE, Corporate Responsibility Policy, at:

https://www.ree.es/sites/default/files/04_SOSTENIBILIDAD/Documentos/politica_responsabilidad_corporativa_24112015_ing.pdf

⁴⁰ REE, Code of Conduct and Ethics, at:

https://www.ree.es/sites/default/files/03_GOBIERNO_CORPORATIVO/Documentos/CODIGO_ETICO_CONDUCTA.ENG.pdf

⁴¹ REE, "2020 Sustainability Report", at: https://www.ree.es/sites/default/files/publication/2021/05/downloadable/Sustainability_Report_2020_0.pdf

⁴² Eurelectric, "Connecting the dots: Distribution grid investment to power the energy transition", (2021), at: <https://www.eurelectric.org/connecting-the-dots/>

⁴³ European Commission, "Climate strategies and targets", (2021), at: https://ec.europa.eu/clima/policies/strategies_en

⁴⁴ S&P Global, "Europe's Distribution grids need at least 50% more investment in 2020's" (2021), at: <https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/europe-s-distribution-grids-need-at-least-50-more-investment-in-2020s-8211-study-62116858>

⁴⁵ Directive 2009/28/EC of the European Parliament and of the Council, accessed (27.2.19) at: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32009L0028&from=EN>

⁴⁶ Union of Concerned Scientists (2015) "How Energy Storage Works" accessed (27.2.19) at: <https://www.ucsusa.org/clean-energy/how-energy-storage-works>

⁴⁷ Fares, Robert (2015) "Renewable Energy Intermittency Explained: Challenges, Solutions, and Opportunities" accessed (27.2.19) at:

<https://blogs.scientificamerican.com/plugged-in/renewable-energy-intermittency-explained-challenges-solutions-and-opportunities/>

⁴⁸ Bloomberg, "The Day Europe's Power Grid Came Close to a Massive Blackout", (2021), at: <https://www.bloomberg.com/news/articles/2021-01-27/green-shift-brings-blackout-risk-to-world-s-biggest-power-grid>

⁴⁹ Green Tech Media, "Germany's Maxed-Out Grid is Causing Trouble Across Europe", (2020), at: <https://www.greentechmedia.com/articles/read/germanys-stressed-grid-is-causing-trouble-across-europe>

that would otherwise be produced because there is no available capacity to transport it through the transmission system.⁵⁰

Curtailement has also been noted as a specific challenge in Spain, with the grid unable to completely transmit the increasing supply of renewable electricity. In 2020, a new law was passed to help more renewable producers to gain access to the system.⁵¹ In addition, in 2018, Spain announced an ambitious environmental policy that would see the country end its dependence on fossil fuels and instead draw 75 percent of its electricity from renewables by 2030, rising to 100 percent by 2050.⁵² In 2020, renewables accounted for 43.6% of the electricity production in Spain and it is expected to continue rising as the country works towards meeting its electricity targets.⁵³ In this context, Sustainalytics considers that the assets funded through Red Eléctrica Green Finance Framework will allow Spain to increase the amount renewable electricity it produces and contribute positively to the EU's climate targets.

In addition to its role in integrating renewable energy, electrical grid investments can support the decarbonization of other economic sectors, such as transportation. The transportation sector is responsible for over half of the global oil demand and 25% of global GHG emissions.⁵⁴ Rail-based transportation is one of the most environmentally friendly methods to move passengers and freight; compared to transport by road, rail is 11 times more energy efficient on a per-ton basis for freight and three times more efficient on a per-person basis for passengers.⁵⁵ Furthermore, Red Eléctrica's investments are focused on the electrical infrastructure needed for high-speed electric trains, which produce 20-35% lower carbon emissions than the most efficient diesel trains;⁵⁶ a savings that is projected to increase over time as the grid mix of electricity becomes less fossil-fuel dependent.⁵⁷ These investments are of particular relevance due to the need for rapid decarbonisation of the transportation sector in Europe in order to achieve climate goals, as transportation is the EU's only major economic sector in which emissions are substantially higher than they were in 1990,⁵⁸ while the Region's 2030 climate & energy framework calls for a 20% reduction in emissions by 2030 compared to a 2008 baseline, as well as a 60% reduction from 1990 levels by 2050.⁵⁹ Red Eléctrica's investment priorities are of particular relevance in the Spanish context, which is considered a leader in high-speed rail. The country currently has 3,567 km of electrified high-speed rail lines, with further infrastructure under construction and in development.⁶⁰ The state-owned rail infrastructure company ADIF has a stated goal of bringing high-speed rail to within 30km of 90% of the country's population.⁶¹

Considering the environmental benefits of increased rail electrification, and the contribution of such infrastructure to nation-wide mobility goals, Sustainalytics views positively Red Eléctrica's clean transportation asset category.

Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 by the United Nations General Assembly and form an agenda for achieving sustainable development by the year 2030. The instruments issued under the Red Eléctrica Group Green Finance Framework advances the following SDGs and targets:

Use of Proceeds Category	SDG	SDG target
Renewable Energy	7. Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix
	9. Industry, Innovation, and Infrastructure	9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound

⁵⁰ BNA Americas, "Chile Renewables Watch: Installed Capacity Surpasses 25%", (2020), at: <https://www.bnamericas.com/en/news/chile-renewables-watch-installed-capacity-surpasses-25>

⁵¹ S&P Global, "Spain passes renewables law to tackle grid permit backlog", (2020), at: <https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/spain-passes-renewables-law-to-tackle-grid-permit-backlog-59193532>

⁵² National Geographic, "Spain: taking renewable energy to the next level", (2020), at: <https://www.nationalgeographic.com/science/article/partner-content-setting-standard-for-sustainability>

⁵³ Renewables Now, "Spain generates 43.6% of power from renewables in 2020", (2020), at: <https://renewablesnow.com/news/spain-generates-436-of-power-from-renewables-in-2020-725418/>

⁵⁴ IEA, "The Future of Rail", (2019), at: <https://www.iea.org/reports/the-future-of-rail>

⁵⁵ Hoffrichter, A, "Why Trains Are So Much Greener Than Cars or Airplanes", <https://www.citylab.com/transportation/2019/04/rail-transportation-carbon-emissions-green-new-deal/586240/>.

⁵⁶ Hickman, L, "How green are electric trains?", <https://www.theguardian.com/environment/blog/2012/jul/16/electric-trains-diesel-green-carbon>.

⁵⁷ International Energy Agency, "The Future of Rail", <https://www.iea.org/futureofrail/>.

⁵⁸ European Commission, "Transport" https://ec.europa.eu/clima/policies/international/paris_protocol/transport_en.

⁵⁹ European Commission, "2030 climate & energy framework", https://ec.europa.eu/clima/policies/strategies/2030_en.

⁶⁰ International Rail Journal, "Spain opens new high-speed rail section", (2020), at: <https://www.railjournal.com/infrastructure/spain-opens-new-high-speed-rail-section/>

⁶¹ "Adif, "High Speed Lines", http://www.adifaltavelocidad.es/es_ES/infraestructuras/lineas_de_alta_velocidad/lineas_de_alta_velocidad.shtml

		technologies and industrial processes, with all countries taking action in accordance with their respective capabilities
Clean Transportation	11. Sustainable Cities and Communities	11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons

Conclusion

Red Eléctrica has developed the Red Eléctrica Group Green Finance Framework under which it will issue Green Finance Instruments and use the proceeds to finance and/or refinance, in whole or in part, existing and/or future assets that support the connection and integration of renewable energy in the grid network and improve the efficiency of the rail system (as part of the grid network). Sustainalytics considers that the assets funded by the proceeds will provide positive environmental impacts.

The Green Finance Framework outlines a process by which proceeds will be tracked, allocated, and managed, and includes commitments for reporting on the allocation and impact of the use of proceeds. Furthermore, Sustainalytics believes that Red Eléctrica’s Green Finance Framework is aligned with the overall sustainability strategy of the company and that the green use of proceeds categories will contribute to the advancement of the UN Sustainable Development Goals 7, 9, and 11. Additionally, Sustainalytics is of the opinion that Red Eléctrica has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects funded by the use of proceeds.

Sustainalytics has assessed Red Eléctrica’s Green Finance Framework for alignment with the EU Taxonomy, and is of the opinion that, of the Framework’s eligibility criteria, which maps to one EU activity, align with the applicable Technical Screening Criteria (“TSC”) in the EU Taxonomy and with the Do No Significant Harm Criteria. Sustainalytics is also of the opinion that the activities and projects to be financed under the Framework will be carried out in alignment with the EU Taxonomy’s Minimum Safeguards.

Based on the above, Sustainalytics is confident that Red Eléctrica is well-positioned to issue Green Finance Instruments and that the Green Finance Framework is robust, transparent, and in alignment with the four core components of the Green Bond Principles 2021.

Appendices

Appendix 1: Approach to Assessing Alignment with the EU Taxonomy

Sustainalytics has assessed the eligible green use of proceeds category in the Framework against the criteria for the relevant NACE⁶² activity in the EU Taxonomy. This appendix describes Sustainalytics' process and presents the outcome of its assessment of alignment with the Taxonomy's applicable Technical Screening Criteria (TSC) and Do No Significant Harm (DNSH) criteria. Sustainalytics' assessment involves two steps:

1. Mapping Framework Criteria to Activities in the EU Taxonomy

The initial step in Sustainalytics' assessment process involves mapping each criterion in the Framework to a relevant and applicable NACE activity in the EU Taxonomy. Note that each Framework criterion may be relevant and applicable to more than one NACE activity and vice versa. Sustainalytics recognizes that some Framework criteria relate to projects that do not map well to a NACE activity. In such cases, Sustainalytics has mapped to the NACE activity that is most relevant with respect to the primary environmental objective and impacts.

In some cases, the Framework criteria cannot be mapped to an activity in the EU Taxonomy, as some activities are not yet covered by the Taxonomy, and some categories which are traditionally included in green bonds may not be associated with a specific economic activity. While recognizing that financing projects in these areas may still have environmental benefits, Sustainalytics has not assessed these criteria for alignment.

The outcome of Sustainalytics' mapping process for SmartYield's Framework is shown below.

2. Determining Alignment with EU Taxonomy Criteria

The second step in Sustainalytics' process is to determine the alignment of each criterion with relevant criteria in the EU Taxonomy. Alignment with the TSC and DNSH criteria is usually based on the specific criteria contained in the issuer's Framework, and may in many cases (especially DNSH criteria) also be based on management systems and processes and/or regulatory compliance. To assess alignment with the EU Taxonomy's Minimum Safeguards Sustainalytics has conducted an assessment of policies, management systems and processes applicable to the use of proceeds, as well as examining the regulatory context in the geographical location in which the issuer will finance activities and projects. (This assessment is included in Section 2, above.)

In cases where the Framework criteria describe projects which are intended to advance EU environmental objectives other than Climate Mitigation or Climate Adaptation, the Taxonomy does not include relevant TSC. In these cases, Sustainalytics has assessed the activity for alignment with the DNSH criteria across all objectives.

Table 2: Framework mapping table

Framework Category	Framework Criterion (Eligible Use of Proceeds)	EU / NACE Activity	NACE Code	Primary EU Environmental Objective	Refer to Table
Electricity network	Transmission and Distribution of Electricity	Transmission and Distribution of Electricity	D.35.12, D.35.13	Mitigation	3

⁶² The EU Taxonomy is based on economic activities defined in NACE (Nomenclature des Activités Économiques dans la Communauté Européenne). The Taxonomy currently lists 70 economic activities which have been chosen due to their ability to substantially contribute to climate change mitigation or adaptation.

Appendix 2: Comprehensive EU Taxonomy Alignment Assessment

The tables below provide a detailed assessment of the alignment of Issuer’s Framework criteria with the EU Taxonomy’s TSC and DNSH criteria for the relevant NACE activity.

Table 3

Framework Activity assessed	Electricity network		
EU Activity	Transmission and Distribution of Electricity		
NACE Code	D.35.12, D.35.13		
EU Technical Screening Criteria		Alignment with Technical Screening Criteria	
Mitigation	Construction and operation of transmission systems that transport the electricity.	Red Eléctrica has confirmed that the proceeds will be invested in electricity transmission infrastructure where more than 67% of newly enabled generation capacity in the system is below the generation threshold value of 100gCO ₂ e/kWh measured on a life cycle basis over a rolling five-year period. This criterion renders the activity aligned with the Taxonomy.	Aligned
DNSH Criteria		Alignment with DNSH Criteria	
Climate Change	<p>The physical climate risks that are material to the activities mentioned above have been identified by the Issuer by performing a robust climate risk and vulnerability assessment.²⁶ The assessment must be proportionate to the scale of the activity and its expected lifespan, such that:</p> <ul style="list-style-type: none"> for investments into activities with an expected lifespan of less than 10 years, the assessment is performed, at least by using downscaling of climate projections; for all other activities, the assessment is performed using high resolution, state-of-the-art climate projections across a range of future scenarios consistent with the expected lifetime of the activity, including, at least, 10 to 30 years climate projections scenarios for major investments. <p>The issuer has developed a plan to implement adaptation solutions to reduce material physical climate risks to the selected activities under this framework.</p> <ul style="list-style-type: none"> For new activities the Issuer ensures that adaptation solutions do not adversely affect the adaptation efforts or the level of resilience to physical climate risks of other people, of nature, of assets and of other economic activities and are consistent with local, sectoral, regional or national adaptation efforts. 	<p>Red Eléctrica has confirmed to Sustainalytics that the management of climate-related risks is integrated into the Company’s risk management system. Red Eléctrica’s process of assessing climate-related risks is carried out annually and, in accordance with the Comprehensive Risk Control System. Relevant risks are reviewed every six months. Relevant climate-related risks with an impact over a one-year time horizon have been included in the corporate risk map.</p> <p>Red Eléctrica has confirmed that climate risks are assessed considering the short, medium and long-term taking into consideration and referencing the RCP scenarios from IPCC. The entire lifespan of eligible projects are considered in Red Eléctrica’s assessment. The modeling considers that the lifespan of transmission projects is at least 30-40 years.</p> <p>Red Eléctrica confirms that its financed activities are fully aligned with Spain’s climate change mitigation and adaptation policies. The Company highlights that the activities are necessary to enhance electrification of the energy system and renewable integration, and therefore emission reduction.</p> <p>Red Eléctrica aligns its adaptation solutions with the directions included in the National Adaptation Plan for the energy sector. Adaptation solutions identified and selected by Red Eléctrica are</p>	Aligned

	<ul style="list-style-type: none"> For activities that involve upgrading or altering existing assets or processes, the Issuer must implement adaptation solutions identified within five years from the start of the activity. In addition, selected adaptation solutions must not adversely affect the adaptation efforts or the level of resilience to physical climate risks of other people, of nature, of assets and of other economic activities and are consistent with local, sectoral, regional or national adaptation efforts 	<p>addressed to increase the transmission grid resilience and ensure the proper operation of the power system. The adaptation measures related to refurbishment of the assets or changes in vegetation management are assessed to identify any potential impact for other activities and preventive/corrective measures would be implemented, as it is normally done in the case of new projects. Adaptation solutions are proposed, planned, and implemented on an as-needed basis (including five years from the start of the activity).</p> <p>Sustainalytics considers Red Eléctrica’s policy as indicative of strong focus on climate adaptation, in particular the commitments around ongoing monitoring, assessment at the asset and portfolio level, reliance on credible climate scenarios, and aim to implement identified adaptation measures, and alignment with Spanish adaptation policies.</p>	
<p>Transition to a circular economy</p>	<p>The activity assesses availability of and, where feasible, uses equipment and components of high durability and recyclability and that are easy to dismantle and refurbish.</p>	<p>Red Eléctrica has committed to implementing changes in its organization that contribute to promoting responsible forms of consumption and has set a 2030 target to achieve the reduction, reuse, recycling, or energy recovery of all the waste generated. The Company has also implemented circular economy guidelines to ensure its supply chain, equipment and materials are made from recycled or reused resources. Red Eléctrica also ensures that all equipment and materials can be recycled, reused, or recovered.</p>	<p>Aligned</p>
<p>Pollution prevention and control</p>	<p>Activities follow the principles of the IFC General Environmental, Health, and Safety Guidelines¹⁸¹.</p> <p>Activities respect applicable norms and regulations to limit impact of electromagnetic radiation on human health, including for activities carried out in the Union, the Council recommendation on the limitation of exposure of the general public to electromagnetic fields (0 Hz to 300 GHz)¹⁸² and for activities carried out in third countries, the 1998 Guidelines of International Commission on Non-Ionizing Radiation Protection (ICNIRP)¹⁸³.</p> <p>Activities do not use PCBs polychlorinated biphenyls.</p>	<p>Red Eléctrica has implemented an Environmental Management System certified according to ISO 14001 and EMAS (activities in Spain).</p> <p>The EMS identifies and mitigates environmental impacts, including those regarding construction activities. The EMS helps to assure the compliance with legal requirements (EIA procedure) and with voluntary commitments regarding environmental protection (including those from the principles of IFC).</p> <p>Red Eléctrica incorporated environmental considerations from the design of projects. The Company considers the selection of its sites to be the most effective measure to avoid environmental impacts. During the construction stage, preventive and corrective measures are implemented. Red Eléctrica completes monitoring and ensure that compliance is mandatory for contractors to certify the project is complete.</p> <p>Red Eléctrica has confirmed that it periodically performs measurements to ensure compliance with applicable norms and regulations in relation to electromagnetic fields. In 2020, it took</p>	<p>Aligned</p>

		<p>measurements on one line, that has produced results below the values recommended by the European Union.</p> <p>Spanish regulation has prohibited the installation of new equipment with PCBs since the year 2000. The Company has indicated full compliance with this regulation and has confirmed that older equipment with PCBs have been already retired.</p>	
<p>Protection and restoration of biodiversity and ecosystems</p>	<ul style="list-style-type: none"> • An Environmental Impact Assessment (EIA) or screening has been completed, for activities within the Union, in accordance with Directive 2011/92/EU. For activities in third countries, an EIA has been completed in accordance with equivalent national provisions or international standards. • Where an EIA has been carried out, the required mitigation and compensation measures for protecting the environment are implemented. • For sites/operations located in or near biodiversity-sensitive areas (including the Natura 2000 network of protected areas, UNESCO World Heritage sites and Key Biodiversity Areas, as well as other protected areas), an appropriate assessment, where applicable, has been conducted and based on its conclusions the necessary mitigation measures are implemented. 	<p>Red Eléctrica has confirmed that it conducts / has conducted an environmental impact assessment (EIA) for all applicable assets. Additionally, Sustainalytics confirms that REE has committed itself to activities that are aligned with policies and regulations in the countries in which it operates and has developed a Biodiversity Commitment and Action Plan.</p> <p>Biodiversity management is carried out taking into account the hierarchy of impact mitigation. REE ensures this through two measures. The first is to include impact mitigation in the environmental specifications that are part of the bidding documents for the work, so it is a contractual document for the contractor obliged to carry them out. REE has an environmental certification of the work to ensure compliance and there are financial penalties for contractors in case they do not comply with what is reflected in the specifications. The second is to carry out an environmental supervision of the works.</p> <p>Red Eléctrica’s biodiversity management includes qualitative commitments, such as: (1) Avoid the implementation of new infrastructures in areas with greater levels of biodiversity and establish mechanisms to ensure their protection and conservation in territories in which the Company develops its activity, especially in sensitive natural environments or (2) Contribute to and boost applied research and innovation aimed at designing solutions and new ways to facilitate the capacity of the environment to play host to the Company’s activities.</p> <p>Red Eléctrica carries out an environmental assessment and establishes a voluntary communication with the competent administration even though the law does not require a regulated procedure.</p> <p>Sustainalytics is of the opinion that through its Biodiversity Commitment and Action Plan, Red</p>	<p>Aligned</p>

		Eléctrica is able to mitigate adverse environmental impacts.	
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Appendix 3: Green Bond / Green Bond Programme - External Review Form

Section 1. Basic Information

Issuer name:	Red Eléctrica Group
Green Bond ISIN or Issuer Green Bond Framework Name, if applicable:	Red Eléctrica Group Green Finance Framework
Review provider's name:	Sustainalytics
Completion date of this form:	July 27, 2021
Publication date of review publication:	

Section 2. Review overview

SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review assessed the following elements and confirmed their alignment with the GBP:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting |

ROLE(S) OF REVIEW PROVIDER

- | | |
|---|--|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 nd opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification | <input type="checkbox"/> Rating |
| <input type="checkbox"/> Other (<i>please specify</i>): | |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (*if applicable*)

Please refer to Evaluation Summary above.

Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

1. USE OF PROCEEDS

Overall comment on section (if applicable):

The eligible category for the use of proceeds –Electricity Network – is aligned with those recognized by the Green Bond Principles and the Green Loan Principles. Sustainalytics considers that investments and assets in the eligible categories will lead to positive environmental impacts and advance the UN Sustainable Development Goals, specifically goals 7, 9, and 11.

Use of proceeds categories as per GBP:

- | | |
|---|--|
| <input checked="" type="checkbox"/> Renewable energy | <input type="checkbox"/> Energy efficiency |
| <input type="checkbox"/> Pollution prevention and control | <input type="checkbox"/> Environmentally sustainable management of living natural resources and land use |
| <input type="checkbox"/> Terrestrial and aquatic biodiversity conservation | <input checked="" type="checkbox"/> Clean transportation |
| <input type="checkbox"/> Sustainable water and wastewater management | <input type="checkbox"/> Climate change adaptation |
| <input type="checkbox"/> Eco-efficient and/or circular economy adapted products, production technologies and processes | <input type="checkbox"/> Green buildings |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBP | <input type="checkbox"/> Other (please specify): |

If applicable please specify the environmental taxonomy, if other than GBP:

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

Red Eléctrica has defined a two-stage project selection process, with final approval from its Sustainability Steering Committee, which includes representatives from Corporate Finance, Sustainability, Energy Networks, System Operation, and Management Control. The Committee will meet on at least a quarterly basis. Sustainalytics considers the project selection process in line with market practice.

Evaluation and selection

- | | |
|--|---|
| <input checked="" type="checkbox"/> Credentials on the issuer’s environmental sustainability objectives | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories |
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Green Bond proceeds | <input checked="" type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input checked="" type="checkbox"/> Summary criteria for project evaluation and selection publicly available | <input type="checkbox"/> Other (please specify): |

Information on Responsibilities and Accountability

- Evaluation / Selection criteria subject to external advice or verification
 In-house assessment
- Other (please specify):

3. MANAGEMENT OF PROCEEDS

Overall comment on section (if applicable):

Red Eléctrica will manage the proceeds of green transactions in a portfolio approach, aiming to ensure that, over time, the green portfolio matches or exceeds the balance of outstanding instruments. Unallocated proceeds will be held in line with the Group's liquidity policy. This is in line with market practice.

Tracking of proceeds:

- Green Bond proceeds segregated or tracked by the issuer in an appropriate manner
- Disclosure of intended types of temporary investment instruments for unallocated proceeds
- Other (please specify):

Additional disclosure:

- Allocations to future investments only
 Allocations to both existing and future investments
- Allocation to individual disbursements
 Allocation to a portfolio of disbursements
- Disclosure of portfolio balance of unallocated proceeds
 Other (please specify):

4. REPORTING

Overall comment on section (if applicable):

Red Eléctrica intends to report on the allocation of proceeds at the category level on an annual basis, including the total amount allocated to the green portfolio, the amount and/or percentage of new and existing projects and the geographical distribution of the assets. In addition, impact reporting including relevant quantitative indicators, case studies, or reports will be provided where feasible. This is in line with market practice.

Use of proceeds reporting:

- Project-by-project
 On a project portfolio basis
- Linkage to individual bond(s)
 Other (please specify):

Information reported:

- Allocated amounts
- Green Bond financed share of total investment
- Other (please specify):

Frequency:

- Annual
- Semi-annual
- Other (please specify):

Impact reporting:

- Project-by-project
- On a project portfolio basis
- Linkage to individual bond(s)
- Other (please specify):

Information reported (expected or ex-post):

- GHG Emissions / Savings
- Energy Savings
- Decrease in water use
- Other ESG indicators (please specify): transformer capacity assigned to train connections Renewable energy generated, Renewable capacity installed

Frequency

- Annual
- Semi-annual
- Other (please specify):

Means of Disclosure

- Information published in financial report
- Information published in sustainability report
- Information published in ad hoc documents
- Other (please specify):
- Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review):

Where appropriate, please specify name and date of publication in the useful links section.

USEFUL LINKS (e.g. to review provider methodology or credentials, to issuer’s documentation, etc.)

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE

Type(s) of Review provided:

- Consultancy (incl. 2nd opinion)
- Certification

Verification / Audit

 Rating

 Other (*please specify*):

Review provider(s):
Date of publication:
ABOUT ROLE(S) OF INDEPENDENT REVIEW PROVIDERS AS DEFINED BY THE GBP

- i. Second-Party Opinion: An institution with environmental expertise, that is independent from the issuer may issue a Second-Party Opinion. The institution should be independent from the issuer's adviser for its Green Bond framework, or appropriate procedures, such as information barriers, will have been implemented within the institution to ensure the independence of the Second-Party Opinion. It normally entails an assessment of the alignment with the Green Bond Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy and/or processes relating to environmental sustainability, and an evaluation of the environmental features of the type of projects intended for the Use of Proceeds.
- ii. Verification: An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or environmental criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Green Bond proceeds, statement of environmental impact or alignment of reporting with the GBP, may also be termed verification.
- iii. Certification: An issuer can have its Green Bond or associated Green Bond framework or Use of Proceeds certified against a recognised external green standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- iv. Green Bond Scoring/Rating: An issuer can have its Green Bond, associated Green Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental performance data, the process relative to the GBP, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material environmental risks.

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The issuer is fully responsible for certifying and ensuring the compliance with its commitments, for their implementation and monitoring.

In case of discrepancies between the English language and translated versions, the English language version shall prevail.

About Sustainalytics, a Morningstar Company

Sustainalytics, a Morningstar Company, is a leading ESG research, ratings and data firm that supports investors around the world with the development and implementation of responsible investment strategies. The firm works with hundreds of the world’s leading asset managers and pension funds who incorporate ESG and corporate governance information and assessments into their investment processes. The world’s foremost issuers, from multinational corporations to financial institutions to governments, also rely on Sustainalytics for credible second-party opinions on green, social and sustainable bond frameworks. In 2020, Climate Bonds Initiative named Sustainalytics the “Largest Approved Verifier for Certified Climate Bonds” for the third consecutive year. The firm was also recognized by Environmental Finance as the “Largest External Reviewer” in 2020 for the second consecutive year. For more information, visit www.sustainalytics.com.

